

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

NASHVILLE CITY CENTER
511 UNION STREET, SUITE 2100
POST OFFICE BOX 198966
NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380

FAX: (615) 244-6804

www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS, LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY
520 SOUTH GRAND AVENUE, SUITE 675
LOS ANGELES, CALIFORNIA 90071
(213) 362-3680

D. Billye Sanders
(615) 850-8951
bsanders@wallerlaw.com

REC'D TO
REGULATORY AUTH.
WALLER LANSDEN DORTCH & DAVIS
A PROFESSIONAL LIMITED LIABILITY COMPANY
809 SOUTH MAIN STREET
POST OFFICE BOX 1035
COLUMBIA, TENNESSEE 38402-1035
EXECUTIVE SECRETARY
(931) 388-6033

May 17, 2002

Via Hand-Delivery


K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

**Re: Petition of Chattanooga Gas Company for Approval of Change
in Purchase Gas Adjustment
Docket No. 02-00383**

Dear Mr. Waddell:

Enclosed you will find the original and 13 copies of Chattanooga Gas Company's responses to the Consumer Advocate and Protection Division's (CAD) second data request in the above referenced docket. We have also enclosed a copy of our responses to the CAD's first data request which were filed with the Consumer Advocate prior to the CAD's intervention in this docket.

Sincerely,



D. Billye Sanders
Attorney for Chattanooga Gas Company

DBS:lmb

Enclosures

cc: Hal Novak
Archie Hickerson
Earl Burton
Vance Broemel

Item 1

Per page 5, lines 8-14 of Larry Buie testimony:

- Q. "Did the Company consider offering this service as an option to its regular tariff rather than applying it to all existing customers?"**
- A. "Yes, we did. Our examination revealed that the cost of changing our computer billing system to manage those customers who chose a fixed rate and others that chose to remain on a variable rate would be prohibitive. In addition, we also found that it would require an extensive customer education campaign as well as additional training and staffing in our call center."**
- a. Please provide a copy of your cost study and all documents prepared in the ... examination ... (of) the cost of changing our computer billing system."**

Response:

See attached worksheets

- b. Given that the Company did consider the requirement, "...for an extensive customer education campaign as well as additional training" is there any evidence that a majority of the customers desire a fixed rate?**

Response:

Yes. Ms. Beverly Wright, an independent consultant, conducted focus groups to obtain data relative to the opinions of Chattanooga Gas Company's customers. The results of her investigation are presented in her testimony. As evident from the focus groups, the customers have little understanding of how the PGA is determined or how their gas bills are calculated. Even with this lack of understanding, a material number of the focus group participants indicated that they would prefer another method.

The lack of customer understanding displayed by the participants in the focus group is evident of the need for an extensive customer education campaign simply to inform the customers of an optional plan. A more detailed campaign would be required to provide the customers the information needed to make an informed decision on which PGA option to select. The Company believes that if the customers were required to make a positive decision to elect either a Fixed Rate PGA or to elect the current fluctuating PGA, the customers would elect the Fixed Rate PGA.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Offering the option of a fluctuating PGA or Fixed PGA would also require extensive training for the Company's Customer Service Representatives who would be required to respond to customer inquiries concerning the mechanics of the Fixed Rate and the fluctuating PGA, and the process for making such an election. These Customer Service Representatives would also have to be trained to implement the election ultimately made by the customers.

AGL Resources, Inc.
CIS Deregulation
Scope Change Estimating Worksheet

Description: Fixed Rate for PGA in CGC

	<u>Request No</u>	
1 Request Research		<u>20</u>
2 Detailed Design (33% of Build)		<u>113</u>
3 Build		<u>342</u>
4 System Test (67% of Build)		<u>229</u>
5 Supervision (15% of Design, Build, System Test)		<u>103</u>
6 Project Management (15% of Design, Build, System Test)		<u>103</u>
7 Contingency (10% of Design, Build, System Test)		<u>68</u>
8 Total Hours		<u>978</u>
9 Total Estimate (@ \$107/hour)		<u>\$ 104,603.20</u>

Date Presented to Change Control Board

Date Approved/Rejected

Project Manager Approval

Date

Director Approval

Date

AGL Resources, Inc.
CIS Deregulation
Scope Change Estimating Worksheet

Description: Offer multiple plans based on enrollment date

	<u>Request No</u>	
1 Request Research		<u>8</u>
2 Detailed Design (33% of Build)		<u>44</u>
3 Build		<u>132</u>
4 System Test (67% of Build)		<u>88</u>
5 Supervision (15% of Design, Build, System Test)		<u>40</u>
6 Project Management (15% of Design, Build, System Test)		<u>40</u>
7 Contingency (10% of Design, Build, System Test)		<u>26</u>
8 Total Hours		<u>378</u>
9 Total Estimate (@ \$107/hour)		<u>\$ 40,403.20</u>

Date Presented to Change Control Board

Date Approved/Rejected

Project Manager Approval

Date

Director Approval

Date

AGL Resources, Inc.
CIS Deregulation
Scope Change Estimating Worksheet

Description: Allow fixed rate to transfer with customer as part of incontin order

	<u>Request No</u>	
1 Request Research		4
2 Detailed Design (33% of Build)		9
3 Build		28
4 System Test (67% of Build)		19
5 Supervision (15% of Design, Build, System Test)		8
6 Project Management (15% of Design, Build, System Test)		8
7 Contingency (10% of Design, Build, System Test)		6
8 Total Hours		82
9 Total Estimate (@ \$107/hour)		<u>\$ 8,816.80</u>

Date Presented to Change Control Board

Date Approved/Rejected

Project Manager Approval

Date

Director Approval

Date

AGL Resources, Inc.
CIS Deregulation
Scope Change Estimating Worksheet

Description: Track receivables for fixed PGA separate from regular PGA

	<u>Request No</u>	
1 Request Research		<u>4</u>
2 Detailed Design (33% of Build)		<u>28</u>
3 Build		<u>86</u>
4 System Test (67% of Build)		<u>58</u>
5 Supervision (15% of Design, Build, System Test)		<u>26</u>
6 Project Management (15% of Design, Build, System Test)		<u>26</u>
7 Contingency (10% of Design, Build, System Test)		<u>17</u>
8 Total Hours		<u>245</u>
9 Total Estimate (@ \$107/hour)		<u>\$ 26,193.60</u>

Date Presented to Change Control Board

Date Approved/Rejected

Project Manager Approval

Date

Director Approval

Date

AGL Resources, Inc.
CIS Deregulation
Scope Change Estimating Worksheet

Description: Calculate monthly BBIL amount taking fixed PGA into account

	<u>Request No</u>	
1 Request Research		4
2 Detailed Design (33% of Build)		58
3 Build		176
4 System Test (67% of Build)		118
5 Supervision (15% of Design, Build, System Test)		53
6 Project Management (15% of Design, Build, System Test)		53
7 Contingency (10% of Design, Build, System Test)		35
8 Total Hours		497
9 Total Estimate (@ \$107/hour)		\$ 53,157.60

Date Presented to Change Control Board

Date Approved/Rejected

Project Manager Approval

Date

Director Approval

Date

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 2

Please provide the number of customers and the percentage (by revenue classification) subscribing to budget billing for Chattanooga Gas Company as of April 30, 2002 and October 31, 2000.

Response:

	Customer On Budget Billing	Total Number of Customers	%
October 31, 2000			
Residential	5,430	49,455	11%
Commercial	151	7,907	2%
April 30, 2002			
Residential	5,482	51,121	11%
Commercial	139	8,203	2%

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 3

Please provide copies of survey responses of focus group participants from which Ms. Wright made the following conclusions: (1) That "Customers from the groups would probably not notice a change of the proposed nature in their natural gas bills." (Wright testimony, page 6, lines 12-13); (2) "The majority of customers from the study (about 2/3) are either indifferent or in favor of the proposal." (Wright testimony, page 6, lines 14-15); and (3) "There was a noticeable shift away from customer opinions against the proposal when this information was included in the proposal." Additionally, provide any and all workpapers Ms. Wright used in preparing her conclusions from the provided written surveys.

Response:

The survey responses and workpapers of Ms Wright are attached. Since the filing of her testimony in this docket, Ms. Wright has discovered an error in her tabulation of the survey results. There were only 30 participants in the focus groups as opposed to 31 (page 5, line 3 of Wright pre-filed testimony). Therefore 1 vote should be subtracted from the indifferent group making 9 indifferent instead of 10. The other categories stayed the same, i.e. 11.5 in favor and 9.5. against. (see pie chart in Exhibit BW-1). The revised breakdown of the 3 sessions is as follows:

	12 p.m. Focus Group	6 p.m. Focus Group	8 p.m. Focus Group
Against	3	5.5	1
Indifferent	4	1.5	3.5
Favor	3	4	4.5
Total	10	11	9

These changes should be made to the attached Market Research Report (see page 10 and 11). Ms. Wright will affirm these corrections when she testifies. However, correction of the error does not change her conclusions.

With respect to the specific requests of this item, please note the following:

1. The conclusion that "Customers from the groups would probably not notice a change of the proposed nature in their natural gas bills" was made from the verbal comments from the respondents from the groups. Respondents were asked to describe what they noticed from their bills and to then discuss their threshold for noticing a change in their bills that would cause concern or attract their attention in some way. Some of the Commercial customers stated that it would take a bill twice the "usual amount" (subjectively evaluated) given the time of year and weather conditions for them to notice a deviation from what they consider "normal". Residential customers stated amounts of about 50% higher than normal. Again,

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

these conclusions are derived from the verbal comments made by the respondents which have already been provided via the video recordings.

2. The conclusion that "The majority of the customers from the study (about 2/3) are either in favor or indifferent to the proposal" can be derived from an examination of the attached survey responses and workpapers of Ms Wright.
3. The conclusion that "There was a noticeable shift away from customer opinions against the proposal when this information was included in the proposal" can be verified from an examination of the attached written questionnaires when the responses from the 6pm group are compared to responses from the 8pm group.

Questionnaire

Chattanooga Gas Company

12 NOON

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

No

- 2) What do you think about the PROPOSED method for billing customers?

it could be good or bad
if it cost 10% more & your
bill was 2000.00 that would
be 200.00 difference which is
not good

- 3) How different do you think the proposed method is from the existing method?

it could make a difference
in bill if winter or summer
hot or cold

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

indifferent cause the gas
co will do what it wants

(S)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Not very aware. I thought it was all based on usage. I did not know "per unit" fluctuated.

- 2) What do you think about the PROPOSED method for billing customers?

If it costs more, I don't like it. But if they ease off billing on a fixed rate makes the CGC's labor, time, and billing easier, maybe their rates will lower!

- 3) How different do you think the proposed method is from the existing method?

From my standpoint, it's not much different because I didn't know how it was done anyway.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I would not be able to say until I know the financial ramifications to my company.

(15)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

SOMEWHAT AWARE

- 2) What do you think about the PROPOSED method for billing customers?

KEEP IT THE SAME WAY

- 3) How different do you think the proposed method is from the existing method?

I COULD BE GOOD, BUT I LIKE OLD WAY BETTER
YOU WOULD KNOW A REGULAR AMOUNT EACH MONTH.
I LIKE IT BETTER IN THE SUMMER WHEN RATE
IS DOWN.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I JUST THINK WE WOULD PAY LESS BY METHOD
WE ARE USING NOW.



Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

fairly aware, did not know of the operation
of product delivery fees

- 2) What do you think about the PROPOSED method for billing customers?

didn't care for the idea.

- 3) How different do you think the proposed method is from the existing method?

probably not that different... would change if
the direction of cost is likely to rise

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

against. see above

⑧

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Not at all!

- 2) What do you think about the PROPOSED method for billing customers?

I think it sounds like a good idea. It would be more beneficial for the gas company.

- 3) How different do you think the proposed method is from the existing method?

Not very much - I think it would be easier on the gas company - Paying at one time - the years average.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

In Favor - Again - I think it would be easier on the gas company - Maybe if the would set a better price for a year at a time. The savings would be passed along to the customer.

①
②
③
④

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

No

- 2) What do you think about the PROPOSED method for billing customers?

The proposed method would provide a more consistent tool for budgeting. It would help alleviate sharp increases in higher usage periods.

- 3) How different do you think the proposed method is from the existing method?

The proposed method will differ in the cost per unit. The unit cost would become fixed over a specified period.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

④ At this point, I would say that I am in favor of the proposed method because it would allow for forecasting and budgeting more effectively.

Questionnaire

Chattanooga Gas Company

1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

- Not very

- No

I knew the rate changed per unit.

2) What do you think about the PROPOSED method for billing customers?

Do not like it.

3) How different do you think the proposed method is from the existing method?

Pretty different.

4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Against! I like sticking to same thing unless change is really better. People can use the existing equal monthly payment plan already in place if they want to equal out their bill.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I was not aware at all of the billing method

- 2) What do you think about the PROPOSED method for billing customers?

I'm not sure over a year it would make that much difference. It would be a gamble whether rates would go up or down or remain the same. The new rates would probably wind up being close to the mean rate anyway.

- 3) How different do you think the proposed method is from the existing method?

I don't think it would make a lot of difference

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I guess I pretty indifferent. Either way the utilities will have to be paid. I'd need to see some summaries from other studies to see if it would be to my advantage or the Gas Co's advantage

(4)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Was not aware at all.

- 2) What do you think about the PROPOSED method for billing customers?

It seems to me that it could
even out the bill some as well as
guarantee a better supply.

- 3) How different do you think the proposed method is from the existing method?

one way changes constantly and the other
would remain constant.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

In favor. It could stop the sharp
raise in prices, even though you would
never have a lower bill.



Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I had an idea that it was based on usage and per month / cost but I was not fully aware that we paid a different unit price monthly or a delivery fee.

- 2) What do you think about the PROPOSED method for billing customers?

I am not sure that I am for or against the new proposed method. It really depends on how much savings vs. cost it would bring to the customer. Over, say a ten year period would we save on our gas bill or would we end up paying more.

- 3) How different do you think the proposed method is from the existing method?

The proposed method brings some stability to the bill because we would know exactly what our cost per unit would be monthly for a year.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I would want to hear more evidence to support the proposed method before making a definite decision for or against. Right now I would say I am in the middle of the road.

①

Questionnaire

Chattanooga Gas Company

6 pm

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I was not aware of how the bill was calculated I only reviewed it at the time my new budget amount was set

- 2) What do you think about the PROPOSED method for billing customers?

* over the long haul I don't think it would make a significant difference

- 3) How different do you think the proposed method is from the existing method?

on a month to month basis it is different but as I said I believe over a long period of time would be about the same

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

② I am in favor of any changes the company chooses to make that will help them control their costs and keep the individuals bills as low as possible. If it helps do that I am in favor of it.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

No I did not.

- 2) What do you think about the PROPOSED method for billing customers?

It has advantages and disadvantages. The advantage would be an easier way for customers to figure out what their bill will be. The disadvantage will be higher bills in the summer due to the standardized unit price.

- 3) How different do you think the proposed method is from the existing method?

There will be a leveling off. No more fluctuations. The bills may be higher in the summer, but level throughout the year.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I'm in favor. I don't like surprises. I'd rather have a level bill throughout the year. That's why I chose budget billing.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I guess what we were - in
what we are billed for. I
hope that is the way it is

- 2) What do you think about the PROPOSED method for billing customers?

I guess it's ok

- 3) How different do you think the proposed method is from the existing method?

I don't understand it that
much

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

(X)

In favor of that it's what
is best

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

NEVER GAVE IT MUCH THOUGHT

- 2) What do you think about the PROPOSED method for billing customers?

I PERSONALLY THINK IT WOULD BE BETTER FOR THE GAS CO. AND THE CUSTOMER - LESS FLUXUATION - BILL WOULD BE BASED ON USAGE LIKE ELECTRIC CO.

- 3) How different do you think the proposed method is from the existing method?

NEW METHOD WOULD REDUCE THE "SURPRISE" OF A HIGHER BILL - ^{CUSTOMER} YOU WOULD BENEFIT FROM PAYING LESS IN COLD MONTHS + PROBABLY A LITTLE MORE IN WARMER MONTHS - WOULD HELP "SMOOTH OUT" YOUR GAS BILL

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

IN FAVOR - EXPLAINED ABOVE - LESS VARIANCE IN TOTAL AMOUNT OF BILL.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I WAS SOMEWHAT KNOWLEDGEABLE OF HOW THE GAS BILL WAS CALCULATED. BUT DID NOT KNOW ALL OF THE DETAILS IN HOW A CUBIC FOOT OF GAS WAS BROKEN DOWN.

- 2) What do you think about the PROPOSED method for billing customers?

I DO NOT CONCUR WITH THE PROPOSITION OF THE "NEW BILLING." I WOULD COMPARE IT TO AN ESCROW ACCOUNT OF AN INSURANCE CO.; WHAT EXTRA MONEY MADE WOULD BE A GREAT INVESTMENT (INTEREST) FOR THE GAS CO., BUT A LOSS TO THE CUSTOMER.

- 3) How different do you think the proposed method is from the existing method?

IF YOU TAKE THE MEAN OF THE PER UNIT PRICE AND ADD A 10% FEE INCREASE TO IT, THEN I SEE AN ADDITIONAL COST PER UNIT.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Against. If we are paying the actual price per unit now, then why change that charge with a 10% increase when the gas co. is making their money on service and now wants to on gas.

(X)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Not exactly, but it works like I thought it would or should.

- 2) What do you think about the PROPOSED method for billing customers?

I don't like it. It parallels principles of investing in the stock mkt - you generally come out better in the long run by taking advantage of the month to month fluctuations rather than going by an annual lump sum. (Income Averaging principle.)

THIS IS COST NOT INCOME

- 3) How different do you think the proposed method is from the existing method?

Very!

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Against. The gas co. is the big winner either way - you're going to charge me what it costs you - if not this year, then next yr. to make up for a loss. If you have a "profit" situation - you'll pocket it in addition to the service fee. It will end up costing me more overall.



Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

yes I think I do,

- 2) What do you think about the PROPOSED method for billing customers?

I think it wouldn't work for the ones that has gas heat just in the winter about 3 months out of the year.

- 3) How different do you think the proposed method is from the existing method?

It would be a lot more paid for gas then I would use I only use more in Dec, Jan, Feb and maybe March.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Because we get only 55# check ? and don't want to pay all year.

②

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Cost per product & usage only
were my assumptions

- 2) What do you think about the PROPOSED method for billing customers?

- The Gas Co appears to be in
the weather forecasting and knowing
what supply & demand will be.
I think this is too risky!!

- 3) How different do you think the proposed method is from the existing method?

As explained it would be tweeking rather
than major change.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Against - I would have to see historical
data vs the proposed method. Maybe
I would feel more committed if this
was explained.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

VERY AS TO GAS COST - A LITTLE AS
TO DELIVERY COST.

- 2) What do you think about the PROPOSED method for billing customers?

I THINK IT WILL RESULT IN HIGHER
COST OVER THE LONG RUN. IN CASE OF
COLD WINTERS AMOUNT OF SPOT GAS WILL
INCREASE RISING SPOT PRICES HIGHER. IN CASE OF
WARM WINTER AMOUNT OF L.T. GAS WILL NOT BE USED
AND WILL RESULT IN A CONTRACT PENALTY.

- 3) How different do you think the proposed method is from the existing method?

VERY DIFFERENT AS TO LONG TERM
COST TO CUST. AND PROFIT TO COMPANY.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

AGAINST - SEE (3)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I KNEW NOTHING ABOUT THE BILLING SYSTEM

- 2) What do you think about the PROPOSED method for billing customers?

X IM NOT IN FAVOR. I BELIEVE CURRENTLY EVERYTHING
balances out (GAS/ELECTRIC) AND IF WE HAVE
A LONG WINTERIE THROUGH APRIL THEN THE
CUSTOMER WILL GET HARMONIZED THE NEXT YR. AND NOT
JUST THAT MONTH.

- 3) How different do you think the proposed method is from the existing method?

Different enough to have this room in AN
upraver about topics such as Compound Interest,
Purchase price, and Duration

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Between INDIFFERENT to Against. I really don't care b/c
I'll pay just like everyone else. But, "IF
It's not broke don't fix it" AND right now
I believe comfort and familiarity is key to
A company that doesn't have a customer
Service Center in the community it serves.

DA

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I knew how - just not all the way - sorta?

- 2) What do you think about the PROPOSED method for billing customers?

it would be alright except for us that have gas stove oven and Hot water -

- 3) How different do you think the proposed method is from the existing method?

Our gas bill might double to make up when the gas company loses money if we had a hot winter -


risk

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

indifferent - Because we have to pay for it or the gas co just turns you off!

Questionnaire

Chattanooga Gas Company



- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I wasn't totally aware of the method used for gas billing.

- 2) What do you think about the PROPOSED method for billing customers?

I think it needs further study or a trial period to see if it benefits the customer.

- 3) How different do you think the proposed method is from the existing method?

It is totally different because the proposed method is faster.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Not sure — I've heard to more exploration regarding the proposed method before I can make a fair judgment.

(4)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

No, I knew we were charged according to usage but didn't know exactly how it was calculated

- 2) What do you think about the PROPOSED method for billing customers?

It would be better if it would be a savings for the customer

- 3) How different do you think the proposed method is from the existing method?

No much different, your bill would only vary depending on usage.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I would need to know what the average price per unit is for an entire yr. Now compared to the proposed fixed price per unit.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I was not aware of how
the total amt. of my bill
was calculated.

- 2) What do you think about the PROPOSED method for billing customers?

If the per unit rate is constant
and you are aware of your monthly
usage - you should be able
to budget more accurately.

- 3) How different do you think the proposed method is from the existing method?

Not that significant

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Indifferent

It will not impact me a great deal
since gas is not my primary
source of heat.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

No - I did not know the gas prices fluctuated - or why!

- 2) What do you think about the PROPOSED method for billing customers?

It is "safe" in the sense that I would not be paying huge prices if gas prices went up drastically. I would rather pay a little extra to "insure" myself against that.

- 3) How different do you think the proposed method is from the existing method?

It all depends on the set price; the possible gas prices. It is more simple billing-wise.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

Between in favor & indifferent because I can't predict the future! I'm not an expert but it appears to be a good plan in theory.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I was not aware of the variable rate per month. I knew it changed but not every month. Actually I thought the rate stayed the same until a price increase was made.

- 2) What do you think about the PROPOSED method for billing customers?

I like the idea of having a similar cost every month but it won't be in this case because usage will still vary.

- 3) How different do you think the proposed method is from the existing method?

It seems to me that the amt. of the bills will be higher with the proposed method.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I tend to be against the proposed method because I see it as being more expensive. Our weather is such that most winters are mild and costs would be lower with the current method.

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

I wasn't aware of how it was done at all - only trusted the Company - I thought the gas meter would show.
In a word - no.

- 2) What do you think about the PROPOSED method for billing customers?

A like the idea of a fixed percent per unit - seems fairer! ? ?

- 3) How different do you think the proposed method is from the existing method?

Probably in the long-run - the same or nearly same.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

In favor -

(X)

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

ONLY IN AMOUNT OF BTU'S I THOUGHT
IT WAS BASED ON COST OF GAS NOT DELIVERY
COST

- 2) What do you think about the PROPOSED method for billing customers?

WOULD BE EASIER FOR CUSTOMER TO
UNDERSTAND

- 3) How different do you think the proposed method is from the existing method?

LESS RISK FOR CUSTOMER

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

I WOULD BE IN FAVOR BECAUSE IT
WOULD BE EASIER TO KNOW HOW MUCH YOUR
BILL WOULD BE BASED ON USAGE

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

Somewhat but not exactly

- 2) What do you think about the PROPOSED method for billing customers?

I am surprise that some quantities of gas are not already included for. It would be simpler

- 3) How different do you think the proposed method is from the existing method?

Will affect one portion of calculation and would possibly make to considerable difference -

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

In Favor

Prices should go down in the long run

Questionnaire

Chattanooga Gas Company

- 1) How aware were you of the EXISTING method for gas billing? Did you know exactly how you were billed?

*This meeting clarified the way to reach
a sensible rate of charging per BTU.*

- 2) What do you think about the PROPOSED method for billing customers?

*I think it is a better way to let
the customer know what he will
pay each month and not be confusing
to figure the bill.*

- 3) How different do you think the proposed method is from the existing method?

Much better - less complaints.

- 4) Would you say that you are IN FAVOR, INDIFFERENT, or AGAINST the proposed method? Please explain your answer.

*In favor - anything that will stop
annoying questions by our
customers. More satisfied customers can
complete their budgets.*

(Signature)

BMR and Associates

Market Research Report

Prepared for:
Chattanooga Gas Company

Analysis of Fixed PGA
Qualitative Study

February 21, 2002

EXECUTIVE SUMMARY

Background

The Study

A market research study was conducted to obtain customer opinions regarding a proposed change from a monthly variable rate PGA to an annual fixed rate PGA. A total of three focus group sessions were conducted among randomly chosen residential and commercial customers in Chattanooga on January 25, 2002.

Billing Awareness

Many of the customers from the study were not aware of the method used to calculate their natural gas bills. Commercial customers seemed to have a slightly higher awareness of the method for calculating their bill than residential customers. Many of the customers would be extremely unlikely to notice a change of the proposed nature in their gas bills and seem almost unaware of their gas bills unless there is a relatively major fluctuation that cannot be internally explained by weather conditions. Customers expressed that their primary concerns from their gas bills include the total bill amount and the corresponding due date. For commercial accounts, the general opinion from the group was that a bill would need to be at least 50% higher (most said 100% higher or "twice as much") compared to their expectations for that specific time of year before a change is even noticed. Many customers from the study stated that even if an amount is noticed, they commonly feel that it is due to the weather, the number of days in their billing period, their specific usage, or a possible problem with their equipment. Many stated that they feel they have very little control over their rates and there was a general sense of curiosity and even suspicion as to why Chattanooga Gas Company would ask their opinions regarding any kind of change.

Many of the customers indicated that they verify the total amount by making a comparison to last year's amount during the same month and judgmentally factor in weather conditions. A few of the customers indicated that they occasionally verify the quantity of natural gas used for a billing period by looking at their gas meters after noticing a meter reader attending to their meter. Almost all customers interviewed indicated that they look only for the amount due and the due date for their gas bill. Many do not read or retain any of the contents other than the materials that are necessary for mailing in their payment.

Customer Opinions of Proposed Change in PGA

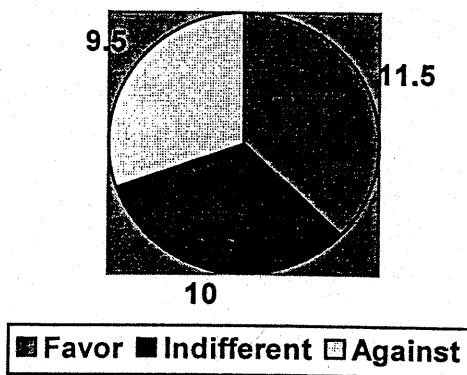
Reaction to the Proposal

Study participants were asked if they would be willing to pay an additional 10% for the proposed change in the billing of the PGA using a fixed rate instead of a variable rate. Participants were asked to choose between Favoring the proposal, Indifferent to the proposal or Against the proposal. Results were tabulated before and after discussion of their opinions. Some of the participants changed their preferences at the conclusion of the discussion, indicating some level of group influence. The number of participants who changed their opinions was not enough to make a large difference in the findings. Since

some participants provided a dual answer stating that they are either "indifferent or against it" or "indifferent or favor it", there responses were counted as one half for each category indicated.

The resulting summary of customer opinions follows:

Customer Opinions of Proposed Change in PGA



As the chart above shows, there is an approximately even split between the three groups of responses. Of those stating that they were indifferent, there were requests for more information regarding how the specific change would impact them. Some of the information requests include the following:

- Has this been done before with other utility companies?
- How much would my bills have been last year under the proposed rate structure compared to last year's actual amounts?
- What is the benefit to me?
- Why is the company doing this?
- How much will this change cost the company to implement?

This list of questions may help if communications mechanisms are developed for customers to understand the change in their PGA rate.

Perceived Customer Benefits of Proposed Method

The benefit of a more level bill that is less impacted by gas market severities seemed to be competing with the budget billing concept in the minds of some study participants.

Some customers from the study did see a benefit of the proposed modification and many of those who saw a benefit seemed to be willing to pay for the perceived benefit of a more levelized bill. Based on the findings, the primary benefit from the customer's perspective seems to be less risk on the customer's part in trying to account for severe gas market conditions. Another benefit as seen by the customers from the study is the sense that there is more control over the amount billed. By having a fixed rate for the PGA each month, customers indicated that the control was in their hands and the

amount they were billed was strictly based on their usage and not on a rate that moves up and down without notice or explanation.

The customers from the study who stated they were against the proposed change did give explanations for their responses. Customers indicated that they did not like change and the current system seems to be working fine. Additionally, customers believed that if a loss was incurred for the company, the company would "just make it up the next year by charging [customers] more". Of those customers who were against the proposal, this was the primary reason for the opposition. Customers stated that they believed the company would "make their money anyway" and would not need to take a loss under any circumstances. However, when study participants from a subsequent focus group were told that the risk associated with the proposed buying procedure was the responsibility of the company and would not be passed on to the customers, the level of opposition to the proposal dropped dramatically. Additionally, customers against the proposal indicated that they believed they had no control over how they are billed and would have to handle the change since they have no other options for natural gas purchases.

Conclusion

The results from the customers indicate that the proposed change in billing would probably go unnoticed among the residential class of customers. Even a notification of a change in billing via a bill insert would be likely to receive only marginal attention, unless the flyer excels at capturing the potential reader's attention. Additionally, the study found very low levels of awareness of existing billing procedures, which implies that customers have no solid benchmark for judging any sort of change.

It is believed that the majority of residential customers would not have serious concern over the proposed billing modification, provided that their total bill amount does not change dramatically from what is anticipated based on previous bills.

Commercial customers from the study expressed a relatively high level of indifference for the proposal. The commercial customers from the study seem to be very unlikely to notice a change of the proposed nature.

Large firm commercial customers were not examined in the study. An in-depth study could be done among these customers to help predict the reaction, if any, among the company's largest firm commercial customers.

Timing

There were many comments regarding the severe spikes in their bills from last winter season. This winter may have been the ideal time for implementing such a modification after the extremities of last winter impacted customer bills. If this winter is mild, there is a possibility that customers would make comparisons for their bill under the new structure to their total bill amounts for the previous year. This could pose some possibility for objections from customers if the amounts are much different for the same amount of usage, although only a small number of customers interviewed seem to even notice or compare consumption quantities from one year to the next.

DETAILED FINDINGS

Background

A proposal was requested for market research services for Chattanooga Gas Company (CGC) from Beverly Market Research. CGC's objectives for the market research study are as follows:

1. Determine if there are market indications that suggest the possibility of customer **PREFERENCE** for a fixed rate over the existing variable rate structure for the PGA portion of their bill.
2. Determine if there are market indications that suggest the possibility of customer **INDIFFERENCE** for a change in rate structure from the existing variable rate to a fixed rate for the PGA portion of their bill.

The study also examined the potential level of resistance to or disapproval of the proposed change. Natural gas bill handling procedures were explored to begin to understand the level of billing procedure awareness among participants in the study and to estimate the likelihood of customer awareness of a modification of the PGA rate.

Rate Structure

The Purchased Gas Adjustment (PGA) portion of the customer bill that is currently being charged to customers uses a non-fixed rate schedule that changes from month to month based on conditions in the natural gas wholesale marketplace. CGC sets the rate for this portion of the bill based on their expected cost, which is passed on to its customers without markup.

The proposed change involves modifying the existing non-fixed rate structure for the PGA portion of the bill to a rate that uses a fixed amount per unit for a specified period of time, proposed to be one year. CGC needs to determine if there appears to be any amount of customer interest in the proposed rate structure for consideration of a change by the Tennessee Regulatory Authority. An additional perspective and interest for CGC is to examine the consumer and business response to a hypothesized change in billing structure. CGC would like to be able to look for signs of possible negative or positive impacts that might appear to result from a change in rate structure.

Study Objectives

The objective of the study is to determine if there is potential customer interest, indifference or negative reaction to a fixed rate PGA over the existing non-fixed rate PGA. Results from the study will be implemented to help decide if a change in PGA rate structure would be appropriate for the Chattanooga Gas Company service territory.

Study Methodology

The market research methodology employed was a set of focus groups involving randomly chosen customers from Chattanooga Gas Company's customer database. Two residential groups and one commercial group were conducted for the study. The entire database of residential and commercial customers was provided. The random number generator function in Excel was used to develop a table of numbers to assist in the random selection. Customer records were numbered beginning with "1" through the full list of customers. The random numbers were chosen for the appropriate range of residential and commercial accounts, based on the total number of records available. Random numbers were matched with the corresponding customer records for the list of customers to be contacted. This set of customers were contacted and asked to participate in a study. The person responsible for paying the gas bill was requested. The potential participants were informed that the study was on behalf of Chattanooga Gas Company and they would be asked opinions about their billing structure. Both residential and commercial accounts were provided a cash incentive to participate in the study. To accommodate customer schedules, the commercial focus group session was held at 12 noon with a lunch provided and the residential focus group sessions were held in the evening at 6pm and 8pm.

Residential customers were recruited from various zip code areas of CGC service territory. Customers recruited resided in areas covering the triangle from Soddy-Daisy to Cleveland to East Ridge, including many areas within the geographic triangle.

A summary of the content of the focus group session discussions is as follows:

- Introduction
- Bill handling
- Bill content
- Regulation
- Explanation of current billing procedure
- Proposed billing methodology
- Discussion of their opinions of proposed method

Detailed descriptions and findings from each of these sections are discussed in the sections that follow.

Introduction

I introduced myself as an independent contractor not employed by Chattanooga Gas Company. I verified that each member of the group was the person responsible for paying the natural gas bill for their household or business. I informed the participants that they had been selected at random to provide their opinions regarding a proposed new billing concept. I informed them that their individual responses would not be identified with their account and requested that they speak openly.

Bill handling

I asked the participants to describe their handling process for their natural gas bill. Most of the participants stated that they received their bill in the mail, opened it either right away or within a week, removed the portion of the bill needed for payment and discarded the remaining contents. A few participants stated that they read materials in their bill envelope, including scratch and sniff cards (examples of the scent of natural gas

additive) and recipes. There appeared to be very little examination of the calculation of the bill unless the bill amount was excessively higher than expectations.

Bill content

I asked the participants to think of any characteristics or items they could recall from their natural gas bill. The point of the exercise was to discover the level of awareness of existing billing procedures and to determine the extent customers would notice any sort of change in their billing procedures. I recorded their comments on a flip chart during the focus group sessions. The resulting comments for all groups include the following:

- Total bill amount
- Due date
- Blue margin/blue color (formerly had red, white and blue; now just blue)
- Account number (for writing on the check; very long)
- Amount of gas used (btu's, ccf's)
- Name and address (to verify correct bill)
- Last month/year comparison/chart (may be confused with other utility bills)
- "Warm Neighbor" charity offer
- Disorganized, not centered
- Straightforward
- Actual amount compared to installment amount (budget billing)
- Make check payable to ...
- Atlanta Gas Light Company versus Chattanooga Gas Company
- Flame
- Small print
- Easy to read/Difficult to read (varying opinions)
- Envelope stays together (does not come unglued)
- Number of days in billing period

A large portion of the customers from the study expressed that they only looked for the total amount due, the due date and the name to place on the To: portion of their check. If the total amount due is higher than anticipated for the specific time of year, customers from the study stated that they take the following steps, although the order is uncertain and may vary from customer to customer:

- Check the number of days in the billing period
- Try to remember the weather conditions for the past month
- Compare the amount to last year's bill amount
- Contact CGC's customer service department.

Many customers expressed concern over the equipment used to measure their natural gas consumption and there was concern expressed over the method to read and estimate their meter values. The blindness of the measurement process seems to give customers a reason to suspect equipment leakage or failure for misunderstood and perceived overages in their account. Customers from the study questioned the functionality of their equipment when they were not able to justify the higher bill amounts. Also, customers expressed mistrust in meter estimation as opposed to actual readings. However, customers from the study indicated that they felt no control over their bill amount each month and they felt that they had to pay the amount charged or their gas would be cut off. There was a sense of "slavery to the system" from customer

perceptions that there is no debating the gas bill. Customers from the study questioned why CGC would request customer opinions regarding any kind of change to their billing structure.

Regulation

I asked the study participants if they were aware that CGC is regulated. Awareness of utility regulation was high, but knowledge on the subject seemed to cease at awareness. Participants were not able to name the entity that regulated utilities, and there was confusion regarding whether it was a state or federal function.

Customer opinions regarding the meaning of regulation varied among the participants. Some felt that regulation was a group of people who could be influenced, at least to a point, and regulation didn't provide much security of rate making. Others stated that regulation provided them with the knowledge that CGC would not be able to change rates without having a valid reason.



Although customers expressed some level of security provided by the regulatory entity regarding their CGC rates, customers still expressed a need to monitor their bills due to possible equipment failures. The means of monitoring, however, did not appear to be one of calculating their bills using a rate schedule. The most sophisticated monitoring described by customers from the study was simple comparisons of total bill amounts between the current period and other historical time periods.

Explanation of Current Billing Procedure

Customers were given an elementary explanation of how their current bills are calculated. None of the customers from the study were aware of the details regarding the method used for calculating their bills. Customers were informed that there is a utility portion of their bill that charges them for the delivery of their gas. Then customers were informed that there is a gas portion of their bill where customers are charged according to a rate that varies each month due to market conditions, such as supply and demand for natural gas.

Customers seemed surprised to hear that CGC was not the entity that sold the natural gas product, but rather the service for delivery of natural gas. Another surprise to customers of the study seemed to be that natural gas was bought on a monthly basis as opposed to a longer period purchase. There was confusion among at least one participant regarding the origin of the natural gas. One customer stated that she believed that Atlanta Gas Light Company sold gas to Chattanooga Gas Company.

The following graphical display was drawn on a white board during the focus group sessions to help explain the existing and proposed method for billing. Actual PGA rates used may have been different. However, the point was made that the proposed fixed rate may be as much as 10% higher than the average of the existing non-fixed rates over a long term period.

 (molecules)	<table border="1"> <thead> <tr> <th>Gas (Product)</th><th>GAS BILL</th><th>Delivery (Service)</th></tr> </thead> <tbody> <tr> <td>Jan \$0.55 * 400</td><td></td><td>Chattanooga Gas Company</td></tr> <tr> <td>Feb \$0.60 * 500</td><td></td><td></td></tr> <tr> <td>Mar \$0.50 * 300</td><td></td><td></td></tr> <tr> <td>FIXED: \$0.57</td><td></td><td></td></tr> </tbody> </table>	Gas (Product)	GAS BILL	Delivery (Service)	Jan \$0.55 * 400		Chattanooga Gas Company	Feb \$0.60 * 500			Mar \$0.50 * 300			FIXED: \$0.57			 Delivered through pipes.
Gas (Product)	GAS BILL	Delivery (Service)															
Jan \$0.55 * 400		Chattanooga Gas Company															
Feb \$0.60 * 500																	
Mar \$0.50 * 300																	
FIXED: \$0.57																	

In this example, Chattanooga Gas Company was compared to a trucking company due to the delivery nature of their business. It was explained that CGC simply passed the cost of the gas along to customers without profit to CGC from actual gas sales.

Proposed Billing Methodology

Once the group understood the basics involved in how their current bill was calculated each month, they were asked to consider the fixed rate proposal. A summary of the proposal was presented to study participants as follows:

What is being proposed is the concept of having the same per unit rate every month instead of having these monthly [PGA] rates fluctuate each month. We are only talking about the gas portion of your bill (as opposed to the delivery portion) and there will still be variation in cost because of how much you are using. The cost per unit would remain the same for a 12-month period of time. Over a 10-year period of time, assume that the total cost to you would be about 10% higher than it would have been otherwise. The fluctuations in your bill would not be as intense as they may have been under unpredictably cold conditions.

This is the outline of the proposal for the first and second groups. The third group was given a slightly different proposal. Many participants made the presumption that if there were a loss incurred for the year, it would be "made up" the next year by charging more to customers. Participants were under the assumption that the company would not lose money regardless of what happens. I did not respond to this assumption in the first two groups.

Modified and additional information given to group #3:
If there is a loss after a year and natural gas forecasts were dramatically off, they would NOT charge it back to the customer. They would not make up for the loss by charging more to customers after the year is over (during the following year). Instead of the 10% higher amount, the results over a long period of time would be about the same. After group discussion, they were asked to assume the amount would increase 10% over a long period of time.

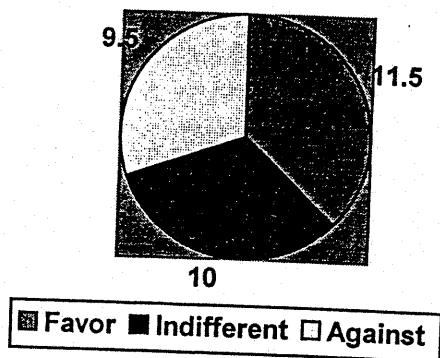
Discussion of their Opinions of Proposed Method

Customers were asked for their opinions regarding the proposed fixed rate PGA methodology. Prior to generating group discussion, participants were asked to record their opinions of the proposal by responding to a written questionnaire handed out immediately following the explanation of the proposal. This method was employed to reduce the level of group opinions and promote the level of individual opinions from the participants.

The questionnaire acted as a springboard for discussion of the opinions regarding the proposal. Participants were asked to choose between Favoring the proposal, Indifferent to the proposal or Against the proposal. Results were tabulated before and after discussion of their opinions. Some of the participants changed their preferences at the conclusion of the discussion, indicating some level of group influence. The number of participants who changed their opinions was not enough to make a large difference in the findings. Since some participants gave a dual answer stating that they are either "indifferent or against it" or "indifferent or favor it", there responses were counted as one half amount to each category indicated.

The resulting summary of customer opinions follows:

**Customer Opinions of Proposed
Change in PGA**



As the chart above shows, there is an approximately even split between the three groups of responses. Of those stating that they were indifferent, there were requests for more information regarding how the specific change would impact them. Some of the information requests included the following:

- Has this been done before with other utility companies? How has this worked?
- How much would my bills have been last year under the proposed rate structure compared to last year's actual amounts?
- What is the benefit to me?
- Why is the company doing this? How will this benefit them and will it be at my expense?
- How much will this change cost the company to implement?
- Will the company make up for any loss the next year by charging us more?

The third group was given more information than the first two groups. Customers from the third group felt that the benefits of not as much volatility would be worth an additional 10% on their gas bill. The risk factor of gas prices "shooting sky-high" would make it worth an additional 10%. One customer stated that her family is "on a budget" and would like to see more level gas bills, so she would be willing to pay the 10% for less fluctuation. Another customer stated that he didn't see 10% as a big deal. Of the third group of customers, only one customer (out of 9) stated that s/he was against the proposal. The following table outlines the group opinions as tabulated from the questionnaires of the proposed fixed rate PGA:

Group	Indifferent	Favor	Against	Total
Commercial, 12noon	5	2	3	10
Residential, 6pm	1.5	5	5.5	12
Residential, 8pm	3.5	4.5	1	9
Totals	10	11.5	9.5	31

Based on the evidence gathered from the focus group discussions, including written, verbal and other communications (expression, tone, etc), along with experience in the energy industry from a gas and electric perspective, I have formed the following hypotheses regarding the differences between results from the three groups:

The commercial group may be more likely to be indifferent to the proposed change in PGA due to the relatively small change in their overall bill. Although they are heavier users, the commercial participants did not seem to closely monitor their bills, probably due to the relative expense of natural gas compared to other more critical expenses of their business. However, they were large enough that a 10% increase in their bill, for any reason, would most likely go unnoticed.

The residential 6pm group had the highest level of negativity of the proposal. Based on discussions with the group, it is suspected that many of the participants were under the presumption that the company would not take a risk on losing money under any circumstance, even in situations where a loss can be attributed to poor gas purchasing practices. By not correcting this presumption and allowing customers to continue to believe that losses would be recovered via higher PGA rates the following year, we learned the strength of providing that piece of information to the customers. Additionally, it is believed that an acceptable explanation outlining why CGC would like to make a change of the nature proposed would probably increase the number of customers in favor of the proposal. However, this concept was not tested in the focus groups.

The residential 8pm group had the highest level of positive response of the proposal. In addition to the differences previously outlined from the 6pm group, the 8pm participants were also given the scenario that the total PGA amount would remain about the same over a long period of time such as 10 years. However, the respondents were then told to consider a 10% increase for the benefits, as they saw them, of a fixed PGA rate. There were no stated changes in opinion after the 10% increase concept was introduced.

Conclusions

There appears to be only mild resistance at most to the proposed change among the residential customers interviewed. Additionally, residential customers stated and suggested that there is a strong sense of lack of control for any modification of rates. Residential customers from the study made several implications that they have almost no control over what CGC does and how they are charged for their natural gas and they did not seem to expect anyone to ask their opinion regarding a change.

For further analysis, a mock version of the communication message developed on the appropriate media form (such as a bill insert outlining the change) could be presented to a number of residential customers in an experimental setting to examine reactions to the communication of the change in PGA rate and the communication of the change. The communication contents should include the items mentioned in previous sections of this report.

Commercial customers from the study expressed a relatively high level of indifference for the proposal. The commercial customers from the study seem to be very unlikely to notice a change of the proposed nature. However, large firm commercial customers were not examined in the study. A similar study could be done among these customers to help predict the reaction, if any, among these customers.

PERIPHERAL FINDINGS

There were many findings from the focus groups that were not necessarily part of the objectives of the study. Some of the most significant or most popular findings are as follows:

1. Company name on customer bills

- There is confusion regarding the company ownership due to the presence of Atlanta Gas Light Company on the bill instead of Chattanooga Gas Company.
- Customers from the study indicated that they would like "their money" to stay in Chattanooga.
- Customers also stated that it makes the company look uncertain when the company name changes "back and forth" on the bill.
- Customers stated that they were not sure who their gas provider was because of the name confusion on their bills.

2. Billing history information

- Customers from the study expressed interest in seeing their total bill amount for the same month for the previous year.
- Customers from the study stated that they would like to see a chart (similar to the electric bill) showing the total bill amounts for the past several months compared to last year's comparable months.
- Customer also stated that they would like to have some indication of weather conditions for the current month compared to weather conditions for the same month from the previous year.

3. Flame/Logo

- There seems to be strength associated with the flame. Customers seem to recall the flame, recognize the flame, and generally have positive feelings for it.

4. Billing appearance

- Customers from the study expressed some frustration with the disorganization of their CGC bills, stating that the typing is not aligned properly and the font is too small.
- Customers from the group were able to recall and seemed to favor the blue color from their bills.

5. Regulation

- There was a high level of awareness that CGC is regulated; however, customers from the study were not able to name the regulatory body for utility companies.
- The perceived benefits of regulation were questionable. Customer opinions from the study regarding how regulation benefits them varied. Some customers stated that they feel safer and more secure about the safe delivery, availability and rate making for natural gas because of a regulatory body representing them. Others stated that they didn't see regulation as a benefit.

CUSTOMER QUOTES

Indifferent Customers

- Indifferent cause the gas co. will do what it wants. (Commercial)
- I would not be able to say until I knew the financial ramifications to my company. (Commercial)
- We have to pay for it or the gas company just turns you off!
- I believe currently everything balances out (gas/electric) and if we have a long winter through April then the customer will get hammered the next year and just not that month.
- I would need to know what the average price per unit is for an entire year now compared to the proposed fixed price per unit.
- If the per unit rate is constant and you are aware of your monthly usage – you should be able to budget more accurately.

Favor Customers

- I think it would be easier on the gas company. Maybe if they could get a better price for a year at a time – the savings would be passed along to the customer. (Commercial)
- I would say that I am in favor of the proposed method because it would allow for forecasting and budgeting more effectively. (Commercial)
- It could stop the sharp raises in prices, even though you would never have a lower bill. (Commercial)
- I am in favor of any changes the company chooses to make that will help them control their costs and keep the individuals bills as low as possible. If it helps do that I am in favor of it.
- The advantage would be an easier way for customers to figure out what their bill will be. The disadvantage will be higher bills in the summer due to the standardized unit price.
- New method would reduce the "surprise" of a higher bill. Customer would benefit from paying less in cold months and probably a little more in warmer months – would help "smooth out" your gas bill.
- I like the idea of a fixed percent per unit – seems fairer!
- Less risk for customer; would be easier for customer to understand.
- It is "safe" in the sense that I would not be paying huge prices if gas prices went up drastically. I would rather pay a little extra to "insure" myself against that.

Against Customers

- I just think we would pay less by method we are using now. (Commercial)
- I like sticking to same thing unless change is really better. People can use the existing equal monthly payment plan already in place if they want to equal out their bill. (Commercial)
- I would have to see historical data vs. the proposed method.
- As explained, it would be tweeking rather than major change.
- I think this is too risky!

- The gas co. is the big winner either way. You're going to charge me what it costs you, if not this year, then next year to make up for a loss. If you have a "profit" situation, you'll pocket it in addition to the service fee. It will end up costing me more overall.
- It seems to me that the amount of the bills will be higher with the proposed method.
- I tend to be against the proposed method because I see it as being more expensive. Our weather is such that most winters are mild and costs would be lower with the current method.

Contact Information

BMR and Associates

Beverly Wright

770.517-0035 (home office)

770.823-2396 (cell)

bevmkres@bellsouth.net (e-mail)

7708232396@vtext.com (instant text messaging)

http://personal.atl.bellsouth.net/~bevmkres

http://www.bmrandaassociates.com

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 4

Please state whether and how the compensation of officers and/or employees of Sequent and/or Atlanta Gas Light and/or Chattanooga Gas will be affected by the fixed rate PGA at issue in this docket, including but not limited to, whether any officers and/or employees of these companies will receive a bonus, raise or other compensation related, directly or indirectly to the financial performance and/or outcome, including but not limited to, profits, losses and/or revenues of the fixed rate PGA. Include in your response, how the compensation of officers would be calculated based on the fixed rate PGA.

Response:

No officer or any other employee of Sequent Energy Management, Atlanta Gas Light Company or Chattanooga Gas Company has any present or future bonus, raise or compensation that is related directly to the financial performance and/or outcome from the profits, losses and/or revenues of the Company's Fixed Rate PGA proposal for Chattanooga Gas Company.

However, since the compensation for all employees is ultimately based on the successful financial performance for the Company as a whole, there would be an indirect relationship between the financial performance of the Fixed Rate PGA and any employee compensation adjustments.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 5

Per Exhibit WHN-1, Original Sheet No. 40 under the heading "Intent and Application," it reads "By September 1 of each year during the Experimental period, the Company shall make a pro forma rate filing with the Authority reflecting the current market conditions for wholesale gas prices at that point in time. Such filing shall be made in accordance with the formula contained in the Determination of Fixed Rate." Further, given that "Such filing will not be a guarantee of the Fixed Rate offered on October 1, but shall be indicative of the general market conditions at September 1. (emphasis added), what recourse does the TRA have if there is a significant difference in the cost of gas paid for by the Company or Sequent between September 25th and October 1st and the pro forma filing of September 1 due to a "...force majeure (sic) situation...?" (Novak testimony, page 10, line 20).

Response:

Generally speaking, the Company would not ordinarily expect a force majeure event to have a material detrimental effect on the worldwide market prices for natural gas over a five-day period from September 25 to October 1. However, if such an event were to occur, then the Company would exercise the appropriate business judgement to avoid entering into fixed rate commitments for that particular plan year. Since natural gas is a fuel of choice for our customers, it is financially imperative that the Company avoid entering into any long-term contracts for gas deliveries that would place our service at a competitive disadvantage. Still, if the Authority were to determine that the Company had in fact deliberately entered into long-term gas contracts to the detriment of our customers, then the tariff allows recourse to the Authority by suspending the Fixed Rate PGA for subsequent periods.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 6

Rather than providing a copy of the supplier's confirmation sheet to the TRA, would Sequent provide copies of the actual invoices and amounts paid for the volumes acquired to the TRA during the year?

Response:

Yes. The Company will immediately provide the supplier's confirmation sheets to the TRA in order for the Staff to quickly substantiate and confirm the Fixed Rate PGA billing rate to be applied. We will then forward a copy of the actual gas invoices for gas deliveries to the TRA Staff as they are received.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 7

Given the exhibits and workpapers provided by the Company as of this date in calculated the pro forma Fixed Rate, if approved, what information will be made available by the Company prior to the beginning of the next year in the Experimental Period to ascertain the benefit to the customer, the Company or Sequent from the previous year of the Experimental Period.

Response:

It is the Company's intent to provide pro forma PGA filings to the TRA on a monthly basis that are based on the market price of gas. While these pro forma filings will not necessarily provide a complete gauge of the Fixed Rate PGA's success, it will provide the TRA with a tool to help ascertain the benefits for subsequent years.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 8

Provide all documentation and correspondence used in determining whether a "Risk Premium of approximately \$0.05 per Ccf" as shown on Exhibit WHN-2 is appropriate.

Response:

The Fixed Rate PGA filing made by the Company last year in Docket No. 01-00761, had a risk premium of approximately \$0.12 per Ccf. This risk premium was determined by first taking the lowest rate for similar fixed rate offerings by marketers in Georgia's deregulated gas market and then subtracting the identified costs in making a similar fixed rate available to customers of Chattanooga Gas Company.

Based on feedback that we received from last years' filing, we decided to separately identify more components of the risk premium in the Fixed Rate PGA formula. The result was that the Company identified from the risk premium the cost of the financial collars that are included in current the Fixed Rate PGA formula. The cost of these two collars is approximately \$0.04 per Ccf of the total pro forma Fixed Rate PGA of \$0.6397 per Ccf contained in the Company's amended filing with the May, 2002 rate scenario.

At this time, we also internally considered the risk premium needed to make the Fixed Rate PGA available. As stated in our direct testimony, such a risk premium would need to cover any loss of firm industrial demand load and any change in interstate pipeline rates by the Federal Energy Regulatory Commission. The risk premium would also need to cover any changes in the lost and unaccounted-for gas volumes, any loss of residential and commercial customers, any loss of existing load from the Residential and Commercial customers, any significant changes in the gas that is placed in or taken out of storage, and possibly any number of other elements that we were unable to identify.

Management determined that a risk premium of \$0.05 would closely approximate the Company's current authorized return, and would be necessary for us to cover these risks. In addition, a \$0.05 risk premium allowed us to further reduce the risk premium that we previously requested in Docket 01-00761 by an additional \$0.03 per Ccf as shown in the table below. Finally the \$0.05 risk premium allowed us to be competitive with similar fixed rates in Georgia as shown on the attached sheet.

Risk Premium included in Docket 01-00761	\$0.12
Less:	
Financial Collars	0.04
Premium Reduction	0.03
Risk Premium included in Docket 02-00383	\$0.05

May 2002 Certified Gas Marketers Price List

Prices shown are through May 5, 2002. There are no guarantees that these prices are accurate for any date after 05/05/2002.

[Print Friendly Version](#)

Certified Gas Marketer	Commodity Price (per therm)	Interstate Capacity Charge	Customer Service Charge	Other Charges
ACN Energy	\$0.58	\$4.4300 per DDDC Factor	\$4.95	AGL Base Charge \$0.65 per DDDC--balancing \$0.00 per DDDC--Imbalance charge
Energy America	\$0.62	\$9.3718 per DDDC Factor	\$7.05	AGL Base Charge
Gas Key (Variable)	\$0.61	\$3.9900 per DDDC Factor Variable	\$5.50	AGL Base Charge \$2.2437 per DDDC--Retained Storage
Gas Key (Senior Citizen/Low-Income)	\$0.49			
Georgia Natural Gas (Fixed)	\$0.60	Included in Commodity Charge	\$4.90	AGL Base Charge
Georgia Natural Gas (\$0.66			
Georgia Natural Gas (Senior Citizen/Low-in	\$0.56			
Infinite (Fixed)	\$0.77	Included in Commodity Charge	\$5.95	AGL Base Charge
Infinite (Variable)	\$0.77			
New Power Company (Fixed)	\$0.68	Included in Commodity Charge	\$4.75* *charge may be \$12 depending on credit check	AGL Base Charge
New Power Company (Variable)	\$0.60			
Scana (Fixed)	\$0.70	Included in Commodity Charge	\$4.95* *charge for Cobb EMC and Snapping Shoals EMC customers: \$5.95	AGL Base Charge
Scana (Variable)	\$0.6990			
Shell (Fixed)	\$0.70	Included in Commodity Charge	\$5.95	AGL Base Charge
Shell (Variable)	\$0.68			
Prices shown are for May 5, 2002. There are no guarantees that these prices are accurate for any date after May 5, 2002.				
Prices do not include the base charge from Atlanta Gas Light Company. This charge is \$10.39 + (\$4.55 per DDDC Factor) or \$(-0.44) + (\$4.55 per DDDC Factor) for senior citizen/low-income customers.				
The Base Charge is the same regardless of which marketer is chosen.				
Customer specific DDDC Factors can be obtained by calling the selected marketer. Gas Marketer contact information click here .				
Prices DO NOT include sales tax, which varies by county.				

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 9

Given the nature of the pro forma Fixed Rate PGA Calculation, the greater the Delivered Cost per Ccf (Line 10 of Exhibit WHN-2, Page 1 of 6), then the Risk Premium per Ccf increases accordingly (Line 11 of Exhibit WHN-2, Page 1 of 6). What incentive is there for Sequent to purchase the lowest possible gas commodity cost from its suppliers?

Response:

As discussed in Item 5 above, natural gas is a fuel of choice for our customers. As such, it is financially imperative that the Company avoid entering into any long-term contracts for gas deliveries that would place our service at a competitive disadvantage with other fuels. As such, the Company always has an incentive to purchase the "best price" gas available for its customers since doing so secures our long-term viability as an economic distributor of energy.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 10

Based on the Company's response to item 3 of the May 2, 2002 Consumer Advocate Data Request, why should the customers be expected to pay approximately \$0.64 per Ccf per the latest iteration of the Fixed Rate PGA when compared to the approximately \$0.59 per Ccf for the last heating season May 2001 through April 2002? Additionally, identify any difference in risks to the customers when comparing the two rates.

Response:

The \$0.59 per Ccf rate referred to was the result of Chattanooga Gas Company purchasing gas at spot market prices during the May 2001 to April 2002 period. While the average rate was \$0.59 per Ccf as shown in response to Item 3 of the May 2, 2002 Consumer Advocate Data Request, the monthly cost of gas that produced this average rate varied from \$0.7451 per Ccf in June 2001 to \$0.4123 per Ccf in October 2001.¹ During the previous twelve month period of May 2000-April 2001, the monthly PGA rate, which was also based on spot market prices, varied from \$0.46 per Ccf in May 2000 to \$0.99 per Ccf in February 2001.

However, due to the volatility of the spot market, customers cannot reasonably expect the \$0.59 per Ccf rate achieved for the previous heating season to be an indication of the costs that will occur during the next heating season. Under the Company's proposed Fixed Rate PGA, the customers will have no risk of the PGA rate increasing during the heating season as a result of changes in the spot market price of gas. Under the Company's present PGA, the customers bear all the risk of increased spot market prices.

¹ As shown in the response to item 3 of May 2, 2002 Consumer Advocate Data Request the gas cost includes the expense of a collar during the months of December-March.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 11

Based on the Company's response to item 3 of the May 2, 2002 Consumer Advocate Data Request, does the approximately \$0.59 per Ccf include undercollection amounts from the 2001 winter? If so, what would be the average rate per Ccf for the heating season May 2001 to April 2002 given normal Undercollection/(Overcollection) amounts? Provide all workpapers and supporting documentation in your answers.

Response:

The PGAs for months of May 2001-November 2001 include the ACA under collection from the period of July 1999-June 2000. The PGAs for the months of December 2001-March 2002 include the ACA under collection related to the July 2000-June 2001 period. The normal under-collection/(over-collection) amount should be \$0 since the goal of the PGA is to collect actual cost of gas during the period. The average rate for the May 2001-March 2002 period would have been \$0.58 per Ccf without the prior period ACA.

Average PGA excluding ACA May 2001-March 2002

Consumer Advocate and
 Protection Division Data Request
 May 10, 2002
 Item 11

Month	Firm PGA effective \$/Ccf	ACA From Previous Period	PGA Adjusted to Exclude ACA for Prior Periods	Total Gas Cost Purchased (commodity)	Total Gas Costs Recoveries (commodity)	Hedging Expense (Collar)	Total Undercollect ion	Total Volumes Unbill (mcf)	Actual Firm GA Cost \$/Ccf	edge Cost \$/Ccf	Weighted PGA Cost
May-01	\$ 0.6467	\$ 0.0174	\$ 0.6293	\$ 2,158,637	\$ 1,820,246		\$ 338,391	370,964	\$ 0.7205		\$ 2,672,867
June-01	\$ 0.6220	\$ 0.0174	\$ 0.6046	\$ 1,286,883	\$ 1,012,805		274,078	222,666	\$ 0.7277		1,620,317
July-01	\$ 0.5330	\$ 0.0174	\$ 0.5156	\$ 562,560	\$ 797,187		(234,627)	266,685	\$ 0.4276		1,140,401
August-01	\$ 0.4987	\$ 0.0174	\$ 0.4813	\$ 1,539,169	\$ 1,306,677		232,492	385,681	\$ 0.5416		2,088,774
September-01	\$ 0.5082	\$ 0.0174	\$ 0.4908	\$ 855,763	\$ 985,259		(129,496)	231,757	\$ 0.4349		1,007,967
October-01	\$ 0.5082	\$ 0.0174	\$ 0.4908	\$ 1,555,260	\$ 2,098,424		(543,164)	566,802	\$ 0.3950		2,238,700
November-01	\$ 0.4861	\$ 0.0174	\$ 0.4708	\$ 3,852,395	\$ 2,629,766	\$ 935,000	1,222,629	718,800	\$ 0.6609		4,750,499
December-01	\$ 0.4861	\$ 0.0153	\$ 0.4708	\$ 4,630,525	\$ 3,168,715	\$ 615,000	1,461,810	1,005,591	\$ 0.6162	\$ 0.0930	6,196,133
January-02	\$ 0.4861	\$ 0.0153	\$ 0.4708	\$ 5,988,158	\$ 4,334,610	\$ 940,000	1,653,548	1,291,718	\$ 0.5988	\$ 0.0476	7,734,956
February-02	\$ 0.4192	\$ 0.0153	\$ 0.4708	\$ 6,634,811	\$ 4,413,652	\$ 483,000	509,257	1,310,997	\$ 0.5096	\$ 0.0717	6,681,431
March-02	\$ 0.6110	\$ 0.0153	\$ 0.4039	\$ 5,166,606	\$ 2,501,412		2,665,195	1,103,852	\$ 0.6453	\$ 0.0438	7,123,653
April-02											
Totals				\$ 34,230,766	\$ 25,068,752	\$ 2,973,000	\$ 7,450,112	7,475,513		\$ 0.0398	\$ 43,255,699

Billed Volumes
 Weighted Average PGA Excluding ACA

74,755,130
 \$ 0.5786

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 12

Why should the TRA approve the Fixed Rate PGA when there are no affiliated rules in place specifically in Tennessee for Chattanooga Gas Company? Provide the specific protections currently in place from affiliated transactions for Chattanooga Gas Company's customers.

Response:

The question indicates a misunderstanding of the facts. There are affiliate transaction rules in place that specifically apply to Chattanooga Gas Company. Unlike the other gas companies under the Tennessee Regulatory Authority's jurisdiction, Chattanooga Gas Company is a wholly owned subsidiary of a registered public utilities holding company, AGL Resources Inc. As a result, Chattanooga Gas Company, its parent company, and its affiliates are subject to the Public Utility Holding Company Act of 1935 (PUHCA), 15 U.S.C. §79. The transactions between Chattanooga Gas Company and its affiliates therefore, must comply with affiliate transaction guidelines established by PUHCA as administered by the Security and Exchange Commission (SEC), 17 CFR §250. These guidelines were created to safeguard utility customers and were specifically recognized by the NARUC when it adopted its affiliate transaction guidelines on July 23, 1999. In these affiliate guidelines, the NARUC states:

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.² (Emphasis added.)

Under PUHCA requirements, the transactions between Chattanooga Gas and its affiliates are priced at cost.

² "GUIDELINES FOR COST ALLOCATIONS AND AFFILIATE TRANSACTIONS" attached to the Resolution Regarding Cost Allocation Guidelines for the Energy Industry adopted by the NARUC Board of Directors July 23, 1999.

CHATTANOOGA GAS COMPANY

Experimental Fixed Rate PGA (Docket 02-00383)

Response to Consumer Advocate and Protection Division May 13, 2002 Data Request

Item 13

If the proposed Fixed Rate PGA tariff is approved by the TRA, would the Weather Normalization Adjustment ("WNA") be waived by the Company? If not, please explain why the WNA or any portion of it would remain in effect. Provide supporting documentation Per in your response.

Response:

The Company's Weather Normalization Adjustment ("WNA") is designed to recover the revenue requirement effect on **base rates** of departures from the normal level of weather adopted by the TRA in the Company's last rate case. In contrast, the Company's proposed Fixed Rate PGA is designed to produce **gas rates** for the Residential and Commercial class customers that will remain stable on an annual basis regardless of fluctuations in the wholesale market price for natural gas. Currently, the PGA rate can change on a monthly basis depending on wholesale market conditions while the base rate can only be changed within the context of a rate case. The base rate and gas rate are added together to produce the total billing rate for our customers.

Because the WNA currently included in the Company's base rates is completely unrelated to the gas rates that are included in the proposed Fixed Rate PGA, the Company is unable to waive the existing WNA provisions of its tariff.

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

NASHVILLE CITY CENTER

511 UNION STREET, SUITE 2100

POST OFFICE BOX 198966

NASHVILLE, TENNESSEE 37219-8966

(615) 244-6380

FAX: (615) 244-6804

www.wallerlaw.com

FILE

WALLER LANSDEN DORTCH & DAVIS, LLP

AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY

520 SOUTH GRAND AVENUE, SUITE 675

LOS ANGELES, CALIFORNIA 90071

(213) 362-3680

D. Billye Sanders

(615) 850-8951

bsanders@wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

809 SOUTH MAIN STREET

POST OFFICE BOX 1035

COLUMBIA, TENNESSEE 38402-1035

(931) 388-6031

May 7, 2002

VIA HAND DELIVERY

Mr. Vance L. Broemel

Consumer Advocate and Protection Division

Cordell Hull Building

425 5th Avenue North

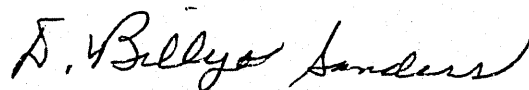
Nashville, Tennessee 37243

Re: Petition of Chattanooga Gas Company for Approval of
Change in Purchase Gas Adjustment
Docket No. 02-00383

Dear Vance:

Enclosed you will find a copy of Chattanooga Gas Company's
Responses to the Consumer Advocate and Protection Division's Data Requests
regarding the above referenced docket.

Sincerely,



D. Billye Sanders

DBS/lmb

Enclosures

cc: Hal Novak
Archie Hickerson
Earl Burton

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 1

Based on our discussions at the April 25, 2002 meeting, please provide an updated Exhibit LB-1 with actual Firm PGA (\$/CCF). Identify any gas costs per CCF by month due to hedging and/or financial collars.

Response:

See attached spreadsheet.

1. The total gas cost underrecovery in exhibit LB-1 reflects gas costs under-recovery on the commodity portion only of the PGA.

Exhibit LB-1 (First Revised)

Month	Firm PGA effective \$/Ccf	Total Gas		Hedging Expense (Collar)	Undercollection (overcollection)	Total Volumes Includ Unbilled (mcf)	Actual Firm PGA Costs \$/Ccf	Hedge Cost \$/Ccf
		Total Gas Purchased (commodity)	Costs Recoveries (commodity)					
May-01	\$ 0.6467	\$ 2,158,637	\$ 1,820,246		\$ 338,391	370,964	\$ 0.7379	
June-01	\$ 0.6220	\$ 1,286,883	\$ 1,012,805		\$ 274,078	222,666	\$ 0.7451	
July-01	\$ 0.5330	\$ 562,560	\$ 797,187		\$ (234,627)	266,685	\$ 0.4450	
August-01	\$ 0.4987	\$ 1,539,169	\$ 1,306,677		\$ 232,492	385,681	\$ 0.5590	
September-01	\$ 0.5082	\$ 855,763	\$ 985,259		\$ (129,496)	231,757	\$ 0.4523	
October-01	\$ 0.5082	\$ 1,555,260	\$ 2,098,424		\$ (543,164)	566,802	\$ 0.4124	
November-01	\$ 0.5082	\$ 3,852,395	\$ 2,629,766		\$ 1,222,629	718,800	\$ 0.6783	
December-01	\$ 0.4861	\$ 4,630,525	\$ 3,168,715	\$ 935,000	\$ 1,461,810	1,005,591	\$ 0.6315	\$ 0.0930
January-02	\$ 0.4861	\$ 5,988,158	\$ 4,334,610	\$ 615,000	\$ 1,653,548	1,291,718	\$ 0.6141	\$ 0.0476
February-02	\$ 0.4861	\$ 6,634,811	\$ 4,413,652	\$ 940,000	\$ 509,257	1,310,997	\$ 0.5249	\$ 0.0717
March-02	\$ 0.4192	\$ 5,166,606	\$ 2,501,412	\$ 483,000	\$ 2,665,195	1,103,852	\$ 0.6606	\$ 0.0438
April-02	\$ 0.6110				\$ -			
Totals	\$	\$ 34,230,766	\$ 25,068,752	\$ 2,973,000	\$ 7,450,112	7,475,513		

Collar Cost per Ccf (Average for 12 months May 01- March 02)

\$ 0.0398

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 2

Based on the response to Item 1, please provide the range of gas costs per CCF for customers of CGC for the last heating season May 2001 to April 2002.

Response:

The filed Purchased Gas Adjustments ranged from a high of \$.6497 per Ccf in May 2001 to a low of \$.4192 per Ccf in March 2002.

The range of actual cost was \$.4124 per Ccf in October 2001 to \$.7451 per Ccf in June 2001.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 3

Based on the response to Item 1, please provide the average gas cost per CCF for customers of CGC for the last heating season May 2001 to April 2002.

Response:

Based on revised Exhibit LB-1 above, the weighted average cost per Ccf for May 2001 through March 2002 was \$.5947 per Ccf. The April 2002 information is not currently available.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 4

Per page 2, line 8 of Mr. Buie's testimony, please quantify the number of complaints to the Company and the TRA due to "price volatility" from the last heating season May 2001 to April 2002.

Response:

The information requested is not available. The Company does not retain records in a form that allows the Company to identify the number of calls that solely addressed price volatility. Neither does the Company have possession of the TRA's records that address such complaints.

Item 5

Is it CGC's contention that this fixed rate tariff filing is due to "the request of the TRA" (page 3, item 4 of the petition) or is the filing due to "a source of contention with many of our...customers" (page 2, lines 16-17, Buie testimony)? Please provide source documentation in your response such as correspondence and statements from the TRA which substantiate your position.

Response:

The Company first considered the possibility of filing a Fixed Rate PGA in response to the TRA's Workshop on gas prices for the 2000-2001 winter heating season. In particular, the Company had noticed that gas marketers in Georgia had begun offering similar fixed price services to their customers.

During the 2000-2001 winter heating season, CGC did receive a large number of complaints from our customers regarding among other things high bills, which further confirmed to us the need for a fixed price service as a solution to these complaints.

The above statements are the opinion of the Company. As stated in the response to item 4, the Company does not keep records of such calls. It is our understanding that the TRA does not keep records of calls or inquires regarding high gas bills that aren't actionable complaints. Therefore there are not outside correspondence or statements to provide.

Item 6

If the CGC's customers "in fact place a value on price certainty" (page 3, lines 3-4 Buie testimony), then do CGC's customers place a value on low gas costs? If so, what does [sic] CGC's customers value more, low costs or price certainty? Please provide source documentation in your response.

Response:

The Company has not performed any studies related to this issue therefore has no source documentation available to provide. However, it is the Company's opinion that while our customers do in fact value "low gas costs", they also value reliable gas service. Since the lowest priced gas cannot always be successfully delivered to them, it is also our opinion that these same customers value delivered gas that is predictably priced with some level of certainty as we have proposed in our filing.

Item 7

Please explain in detail how, "Handing this filing over to an outside, qualified bidder at this time would not necessarily ensure that the successful bidder will take a long-term view to work with the proposed tariff and overcome any obstacles that are unforeseen at this time." (page 4, lines 20-22, Buie testimony)

Response:

To the Company's knowledge, the Fixed Rate PGA tariff is a novel proposal that has never before been attempted by any other gas utility in Tennessee. By its very nature, this particular filing requires the Company to take a certain amount of risk in making it available. The Company has taken a great degree of care in trying to properly identify these risks. However, since this filing has never before been implemented, the complete and total risks are unknown. Because these risks cannot completely be identified at this time, there is the possibility that the Company, or any qualified bidder, will incur a material loss in making this service available.

The Company is committed to making this experimental tariff work, and as such we are taking a long-term view to ensure its success. The Company cannot guarantee this same level of initial commitment to the TRA from any other third party at this time.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 8

Please confirm that the winter referred to in the statement, "40% less than the peak rate charged to our customers last winter" (page 6, line 1, Buie testimony) is the winter of 2001

Response:

The period referred to was the winter heating season of 2000-2001.

CHATTANOOGA GAS COMPANY
Experimental Fixed Rate PGA (Docket 02-00383)
Response to Consumer Advocate and Protection Division May 2, 2002 Data Request

Item 9

Please provide the rate per CCF on Exhibit WHN-2, line 10 less the financial "collar" (page 4, lines 6-7, Novak testimony) and "the cost of obtaining a financial collar to guard against the effects of weather on the recovery of demand cost" (page 6, lines 8-9, Novak testimony).

Response:

The effect of removing both of these financial collars changes the total fixed rate from \$0.6162 per Ccf as contained in the Company's filing to \$0.5746 per Ccf as shown on the attached sheets for a difference of \$0.0416 per Ccf. However, keep in mind that the rates included in this filing are illustrative only, they are based on market conditions at a certain time and are likely to change prior to approval.

Item 10

With respect to Ms. Wright's statement (page 2 lines 16-19):

"Providing information addressing customer concerns regarding assignment of risk and potential losses has an important role in the development of customer opinion of the proposal. There was a noticeable shift away from customer opinions against the proposal when information was included in the proposal."

- A. Does the motivations/predisposition of the panel moderator in such focus groups have any effect on the directions/conclusions of panel participants? Please explain.**

Response:

The motivation of the moderator did not have any effect on the direction panel participants.

The moderator's primary motivation was to provide a service in exchange for economic incentive. The service provided was to determine the truth regarding customer perceptions of a fixed rate PGA. The moderator has no incentive for providing distorted conclusions.

The predisposition of the moderator does not have any effect on the direction of the findings; however, the depth of the results may have been greater due to the moderator's experience with both gas and electric utility customers. The moderator's experience with both AGL Resources and Southern Company helps provide the moderator knowledge and the ability to understand the business circumstances and problems and to help the moderator comprehend the results more accurately than someone never exposed to utility customers. However, there is no impact on direction resulting from the moderator's previous experience.

The consultant was engaged to independently conduct a series of focus groups to obtain information for the Company. Neither the awarding of the contract to the consultant nor the consultant's level of compensation was dependent on the outcome of the research. As a result, the moderator had no economic incentive to direct the focus group to any particular conclusion. In addition, research in this matter was conducted in accordance with requirements of the American Marketing Association. Directing a focus group to a conclusion based on a moderator's predisposition or motivations would be a violation of the Association's Code of Ethics that requires its members to maintain research integrity, and to be honest in serving consumers, clients, employees, suppliers, distributors, and the public.

- B. Does the motivations/predisposition of the panel moderator in such focus groups have any effect on the analysis or conclusions regarding, "a noticeable shift away from customer options against the proposal when this information was included in the proposal?"**

Response:

No. The moderator's predisposition and experience should equip her to recognize shifts and patterns from customer responses more so than a moderator without experience and training in handling utility customers' qualitative responses. The moderator's predisposition does not cause her to have a different conclusion, but perhaps a more in depth conclusion would result from her predisposition.

As stated in response to Item 10 (A), the consultant was engaged to independently conduct a series of focus groups to obtain information for the Company. Neither the awarding of the contract to the consultant nor the consultant's level of compensation was dependent on the outcome of the research. As a result the moderator had no economic incentive to influence the analysis toward a preconceived conclusion. In addition, the research in this matter was conducted in accordance with the requirements of the American Marketing Association. To manipulate the analysis as implied by the question would be a violation of the American Marketing Associations Code of Ethics that requires its members to maintain research integrity, and to be honest in service to consumers, clients, employees, suppliers, distributors, and the public.

- C. Isn't true that in the close of the session (8:00p.m.), that the customer to the left of the panel moderator stated the motivation of the Company for implementing this program was, "To make more money?"

Response:

Yes.

- D. Isn't it true that in the same session (8:00p.m.) that customer #6(going clockwise beginning with the moderator) stated that, "any such risk should be associated to the Company-not the customer?"

Response:

This quote was not found during a review of the videotape of the 8:00 p.m. session.

E. Isn't it true that in the same session, customers raised concerns regarding major changes in the way utility companies are allowed to make changes to their rates/charges? Specifically:

Customer #1 (clockwise from the moderator) raised the concern: "glad we're not have the trouble like California"

Customer #6 stated, "Enron, elective (the Chattanooga Gas program) only or?"

Customer #1 stated, "many people were hurt by Enron, customers, employees, pensioners"

Customer #7 stated, "Why changing - want to know why they're changing"

Customer #1 stated, "Explanation isn't clear - why?, whose benefit? not satisfied with explanation"

Customer #1 stated, "Shop for gas for cheaper rate - fixed cost - Chattanooga vs. Atlanta Gas, What is the benefit here?"

Customer #7 stated, "why haven't they (Chattanooga Gas) bought (gas) in bulk previously? - "They can't unless they go through the regulatory authority to do that."

Response:

We do not understand the nature of this question, and are unable to provide a complete response. In general, the statements referred to above were made at the 8:00 p.m. session. However, none of these statements appear to directly raise "concerns regarding changes in the way utility companies are allowed to make changes to their rates/charges" as addressed in the main body of this item.

Also, the statement attributed to Customer #6 "Enron, elective (the Chattanooga Gas program) only" does not appear correct. From a review of the videotape of the 8:00 p.m. session it appears that Customer #6 stated: "Was that Enron [pause] were they in the [pause] was it just electric was it?" Again, the Company believes that neither this statement, nor any of the others cited above, addressed major changes in the way utility companies change their rates.

Item 11

With respect to your conclusion #2 lines 14 and 15 on page 6 of your testimony: "The majority of customers from the study (about 2/3) are either indifferent or in favor of the proposal." Please detail the customers reflected in your conclusion in favor of the proposal. Number customers, clockwise beginning with the moderator. Additionally, based on statements of those participants, please detail how you arrived at your conclusion.

Response:

Customer participants were informed at the beginning of the sessions that their individual responses would not be tied back to them, as individuals, in any way. Providing this promise to participants is common practice and seems to encourage more candid responses from participants. Therefore, the moderator is not able to provide responses on an individual basis.

The conclusion regarding the number of customers either in favor or indifferent to the proposal was tallied from the results of questionnaires distributed during the sessions, not based on oral statements of the participants during the session.

Questionnaires were administered immediately following explanation of the proposed fixed rate PGA. This was done to gather responses prior to group discussion or the subject, since discussion among the participants may have encouraged some customers to modify their opinions.

Also, the questionnaires were used as a means for customers to provide their individual opinions without concern of judgment by others in the group.